

**Powder River County
Montana**

**FINANCIAL AND COMPLIANCE
REPORT**

Year ended June 30, 2014

Powder River County

Montana

FINANCIAL AND COMPLIANCE REPORT
Year ended June 30, 2014

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MANAGEMENT'S RESPONSE

POWDER RIVER COUNTY
MANAGEMENT'S DISCUSSION & ANALYSIS
June 30, 2014

This discussion and analysis of Powder River County's financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the county's financial performance as a whole. Reading the narrative in conjunction with the transmittal letter and the County's financial statements should give a complete overview of the activities and financial status of Powder River County.

In 1999 the Governmental Accounting Standards Board (GASB), issued a new accounting standard that essentially revised the form of governmental entities' financial statements. In FY2003, Powder River County implemented the new financial reporting which includes financial comparisons. This MD&A includes financial comparisons for FY 2013 and 2014.

Financial Highlights

- Powder River County's assets exceeded its liabilities by \$10,021,424. Of this amount, \$3,377,432 may be used to meet the county's ongoing operational needs. \$6,643,992 is invested in capital assets, net of related debt.
- The County's liabilities increased by \$545,337, primarily attributable to the InterCap Loan for the gravel crusher and conveyor.
- As of June 30, 2014, Powder River County's governmental funds reported combined ending fund balances of \$8,729,442. Of this amount, \$1,227,884 is available for spending at the governments' discretion.

Using this Financial Report

The management's discussion and analysis is intended to serve as an introduction to Powder River County's financial statements. This annual report consists of financial statements for the County as a whole, with more detailed information for funds reported as "*Major Funds*": ***All Purpose Fund, Road Fund, and Oil and Gas Production Fund***. Of the *business-type* funds, ***Nursing Home Fund and Solid Waste Management Fund*** are reported as major funds. The financial section of the report contains the following components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements
4. Required Supplemental Information
5. Other Supplemental Information

Government-Wide Financial Statements

The government-wide financial statements, described below, are intended to provide readers with a broad overview of Powder River County's finances, and can be found on pages 13 and 14.

The ***statement of net position*** outlines all of Powder River County's assets and liabilities. The difference is reported as *total net position*. The increase or decrease in net assets, along with other non-financial factors such as change in tax base and legislative action, can serve as a useful indicator of whether the financial position of Powder River County is improving or deteriorating.

The ***statement of activities*** presents information showing how Powder River County's net position changed during the most recent fiscal year. Both the statement of net position and the statement of activities use the accrual basis of accounting, similar to the accounting used by most private sector businesses. This basis of accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received and paid.

Both of the above government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that recover all of a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities of Powder River County include general government, public safety, public works (road, bridge, weed), public health, social and economic services (aging services), and culture and recreation (library, fair). Business-type activities of Powder River County are the county nursing home and solid waste management system (landfill).

Fund Financial Statements

The fund financial statements give more detailed information about Powder River County's financial activities. Funds are set up to manage resources that have been segregated for specific activities or objectives. Some funds are required by state law, other funds are established by the County to help manage funding and expenses for specific purposes.

All of the County's funds can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

Governmental Funds

Most of the County's services are reported in governmental funds. The governmental funds statements provide a detailed short-term view to cash, the fund operations, and the basic services it provides.

Proprietary Funds

When the County charges customers for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds

All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21-22. Fiduciary activities are excluded from the county's other financial statements because the County cannot use these assets to finance its operations, but is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided.

Required and Other Supplemental Information

This section provides detailed information concerning revenues, expenditures and changes in fund balances, comparing budget to actual. The supplemental information also includes a schedule of grants, entitlements and shared revenues, and a schedule of cash receipts and disbursements, along with a reconciliation of all of the County's cash.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

A comparison of combined net assets of Powder River County on June 30, 2013 and June 30, 2014 are as follows:

Assets	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
Current and other assets	4,504,136	3,572,898	1,288,667	1,476,807	5,792,803	5,049,705
Capital assets	5,608,844	6,000,054	614,792	643,938	6,223,636	6,643,992
Total assets	10,112,980	9,572,952	1,903,459	2,120,745	12,016,439	11,693,697
Liabilities						
Long term debt outstanding	213,089	755,565	748,803	763,368	961,892	1,518,933
Other liabilities	85,267	87,945	79,777	65,395	165,044	153,340
Total liabilities	298,356	843,510	828,580	828,763	1,126,936	1,672,273
Net Assets						
Invested in capital assets	5,815,839	5,682,865	635,056	620,202	6,450,895	6,303,068
Restricted	2,421,822	1,818,692			2,421,822	1,818,692
Unrestricted	1,576,962	1,227,884	439,824	671,780	2,016,786	1,899,664
Total net assets	9,814,624	8,729,442	1,074,880	1,291,982	10,889,503	10,021,424

As the reader will note, the largest portion (57%) of Powder River County's net assets is its investment in capital assets (land, buildings, equipment, etc), less any debt used to acquire those assets that is still outstanding. Powder River County uses capital assets to provide services to its citizen. They are not available for future spending.

Changes in Net Positions

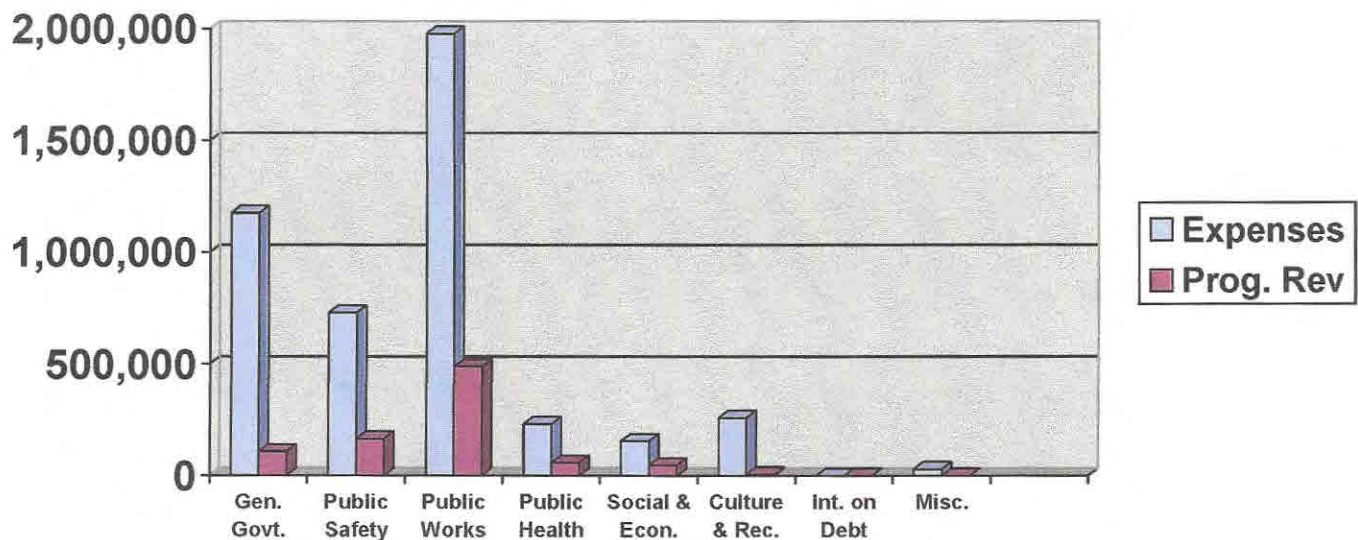
Powder River County's program and general revenues of \$7,380,179 is approximately \$482,664 more than 2013, a combination of more property taxes collected, and a loan from InterCap for \$559,167 for a crusher and conveyor for the Road Dept.. The result of increased revenue and increase in expenses to \$8,248,258 is a change in net position of (\$868,080). The purchase of the crusher and conveyor for the Road Dept., along with normal increases in operating costs reflects the increase in expenses.

	Governmental Activities		Business-Type Activities		Total Primary Govt.	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for services	273,667	257,359	2,168,535	1,883,519	2,442,202	2,140,878
Operating grants & cont.	503,585	600,561			503,585	600,561
Capital grants & cont.	0	10,687			0	10,687
General Revenues:						
Property taxes	1,309,793	1,037,269	111,966	96,873	1,421,759	1,134,142
Local option taxes	453,051	435,975			453,051	435,975
Licenses & permits	2,235	2,025			2,235	2,025
Unrest. Fed/St. shared	58,806	1,478,675	331,469	298,626	390,275	1,777,301
Unrest. Grants & Contr.	2,155,143	739,335			2,155,143	739,335
Unrest. Investment earning	8,629	9,963	6,693	(7)	15,322	9,956
Transfers	(760,728)	(1,019,199)	751,664	1,018,199	(9,064)	(1,000)
Loss on disposal of capital assets	(65,587)	(35,822)	0.00	0.00	(65,587)	(35,822)
Miscellaneous	89,980	94,476	(18,721)	(11,000)	71,259	94,476
Total Revenues	4,028,574	3,611,305	3,351,605	3,286,210	7,380,179	6,897,515
Program Expenses:						
General Government	1,396,068	1,174,698			1,396,068	1,174,698
Public Safety	853,165	727,720			853,165	727,720
Public Works	2,176,354	1,976,759			2,176,354	1,976,759
Public Health	270,835	229,898			270,835	229,898
Social & Economic Serv.	174,040	153,937			174,040	153,937
Culture & Recreation	240,393	258,726			240,393	258,726
Int. on Long Term Loan	2,901	357			2,901	357
Miscellaneous	0	30,484			0	30,484
Transfers Out						
Unallocated Costs						
Nursing Home			2,976,048	2,736,852	2,976,048	2,736,852
Solid Waste			158,455	149,899	158,455	149,899
Total Expenses	5,113,756	4,552,580	3,134,502	2,886,751	8,248,258	7,439,331
Changes in net position	(1,085,182)	(941,275)	217,102	399,459	(868,079)	(541,816)
Net Position -July	9,814,624	10,755,898	1,074,880	675,421	10,889,503	11,431,320
Prior Period Adj.						
Net Position - June	8,729,442	9,814,623	1,291,982	1,074,880	10,021,424	10,889,503

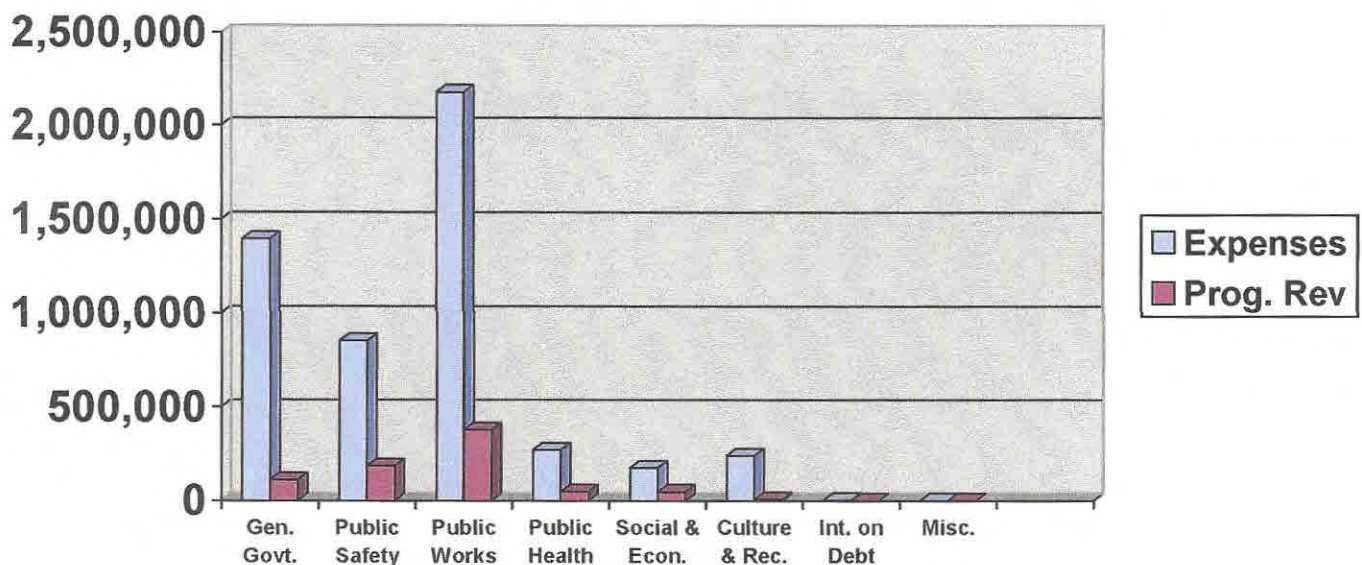
Powder River County taxpayers contributed \$1,421,759 through property taxes and \$453,051 in local option taxes to fund the \$8,248,258 in expenses. The balance of \$6,373,448 was funded by those who directly benefited from the programs and by other governments and organizations that subsidized governmental programs through payment in lieu of taxes, entitlements and operating grants.

Governmental activities decreased the County's net position by \$1,085,182. The graph below shows the relationship between governmental funds' expenses and revenues generated directly by the program (program revenues).

Expenses and Program Revenues - Government Activities 2013



Expenses and Program Revenues - Government Activities 2014

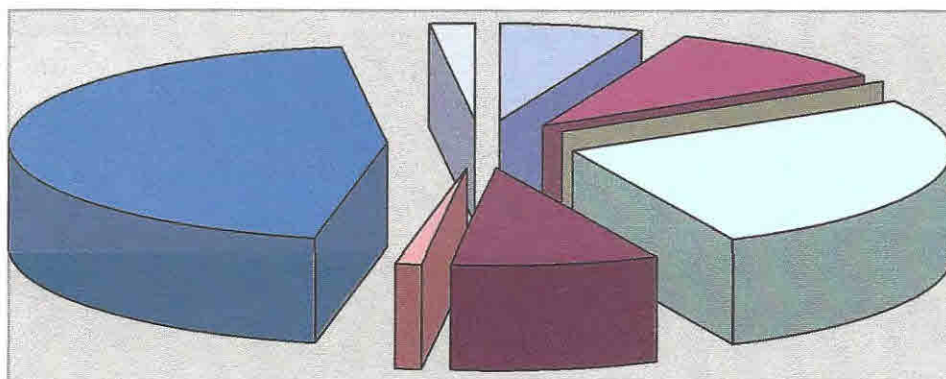


Each program's net cost (total cost less revenues generated by the activity) is presented below. The net cost shows the financial burden that was placed on the county's taxpayers by each of these functions:

<u>Governmental Activities</u>	<u>Net 2014</u>	<u>Net 2013</u>	<u>Difference</u>	
General Government	(1,285,531)	(1,068,003)	217,528	
Public Safety	(667,644)	(563,532)	104,112	
Public Works	(1,798,293)	(1,488,849)	309,444	
Public Health	(222,999)	(172,890)	50,109	
Social & Economic Services	(126,434)	(107,411)	19,023	
Culture & Recreation	(232,701)	(252,438)	(19,737)	
Other/Misc	(2,901)	(30,841)	(27,940)	
Transfers	(760,728)	(1,019,199)	(258,471)	
Total Governmental Activities	(5,097,232)	(4,703,172)	394,068	Increase

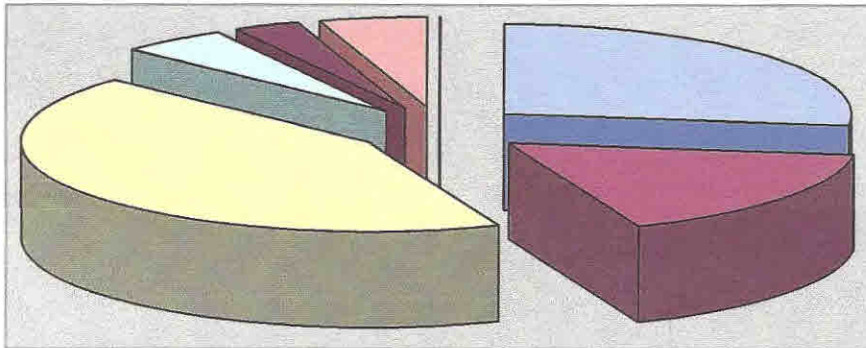
The following graphs demonstrate sources of revenue for Governmental Activities and categories of expense for Governmental Activities:

Revenues by Source – Governmental Activities



Charges for Services	6%
Operating Grants & Contributions	10%
Capital Grants & Contributions	0%
Property Taxes	27%
Option Tax & Lic. & Permits	9%
Fed/St. Shared	1%
Grants & Cont.	45%
Invest. Earning & Misc.	2%

Expenditure by Source – Governmental Activities

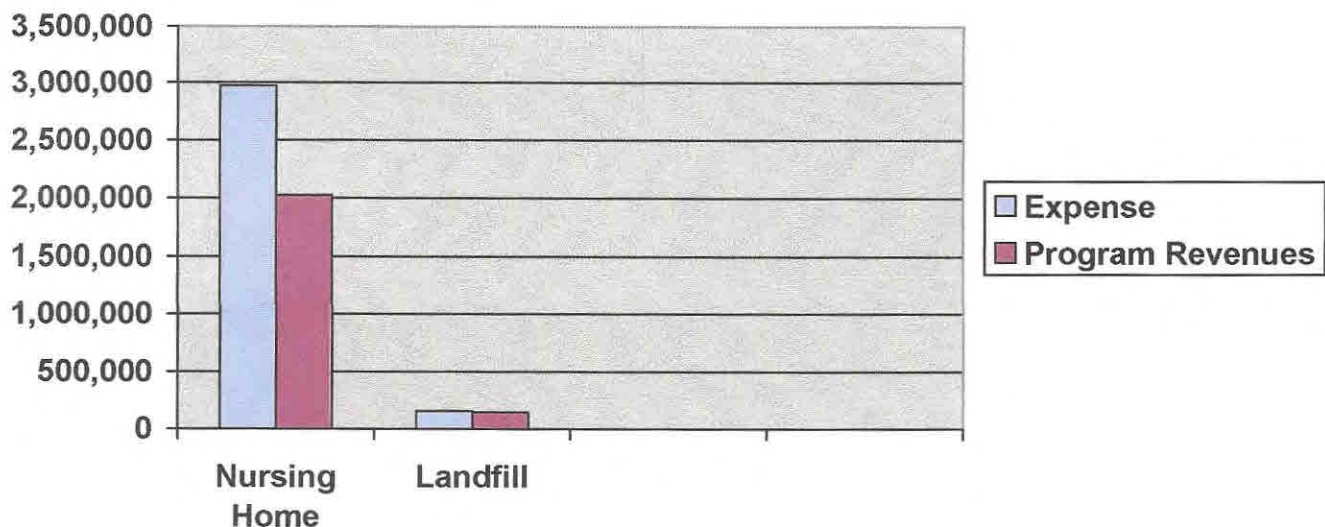


- General Government 27%
- Public Safety 17%
- Public Works 43%
- Public Health 5%
- Social & Econ. Serv. 3%
- Culture & Recreation 5%
- Interest & Misc. 0%

BUSINESS TYPE ACTIVITIES

The cost of all Proprietary (business-type) activities for the year ending June 30, 2014 was \$3,134,502 as compared to \$2,886,751 for FY2013. Revenue utilized by business-type funds was \$3,351,605 compared to \$3,286,210 for FY2013. Net position increased by \$217,102 as compared to an increase of \$399,459 for FY 2013.

Expenses and Program Revenues – Business-type Activities



THE COUNTY'S FUNDS

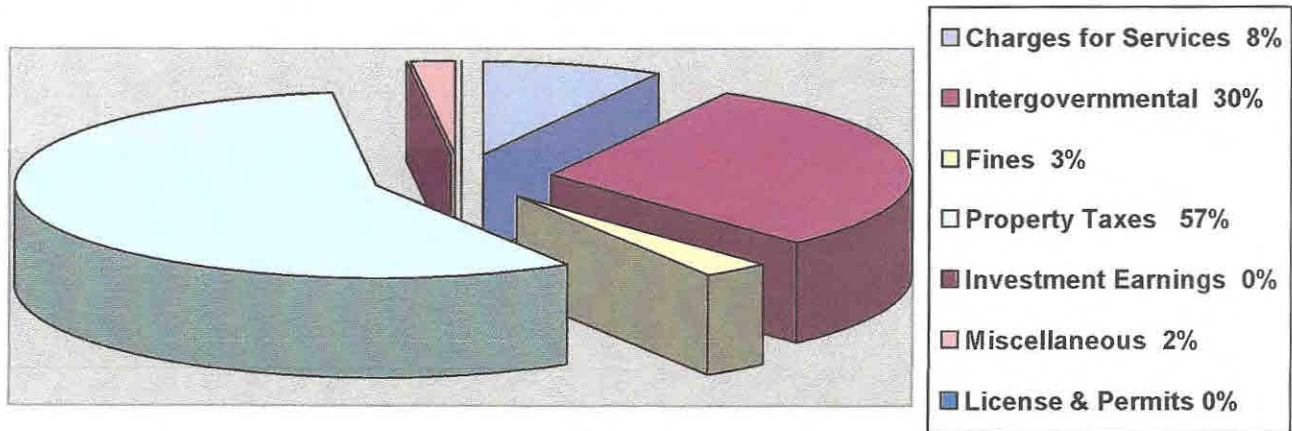
Following is an analysis of balances in the county's major funds and other governmental funds.

All Purpose Fund

The information below compares revenues of the All Purpose Fund for 2014 and 2013. The increase in property tax revenue reflects the slight increase in levies and the vehicle and equipment taxes paid by the pipeline and road construction companies working in the county.

<u>Revenues by Source</u>	<u>2014</u>	<u>2013</u>	<u>Difference</u>	
Property Taxes	\$985,704	\$841,908	\$ 143,796	
Licenses and permits	2,235	2,025	210	
Intergovernmental	512,076	462,426	49,650	
Charges for services	139,018	119,117	19,901	
Fines and forfeitures	48,318	52,456	(4,138)	
Miscellaneous	37,673	58,376	(20,703)	
Investment earnings	5,455	7,934	(2,479)	
Total Revenue	\$1,730,479	\$1,544,240	\$186,239	Increase

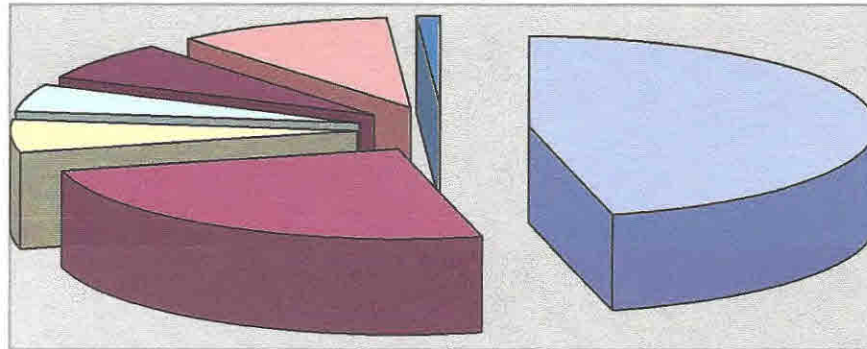
Revenues by Source – All-Purpose



The following information compares expenditures of the All Purpose Fund. The increases generally reflect the higher costs for facilities maintenance, equipment replacement and personnel.

<u>Expenditures by function</u>	<u>2014</u>	<u>2013</u>	<u>Difference</u>	
General Government	\$ 1,233,097	\$1,018,085	\$ 215,012	
Public Safety	573,196	570,000	3,196	
Public Works	155,270	139,650	15,620	
Public Health	141,913	100,815	41,098	
Social & Economic	173,543	155,050	18,492	
Cultural & Recreation	200,486	225,419	(24,933)	
Miscellaneous	0	30,484	(30,484)	
Total Expenditures	\$2,477,505	\$2,239,503	\$238,002	Increase

Expenditure by Source – All-Purpose Fund



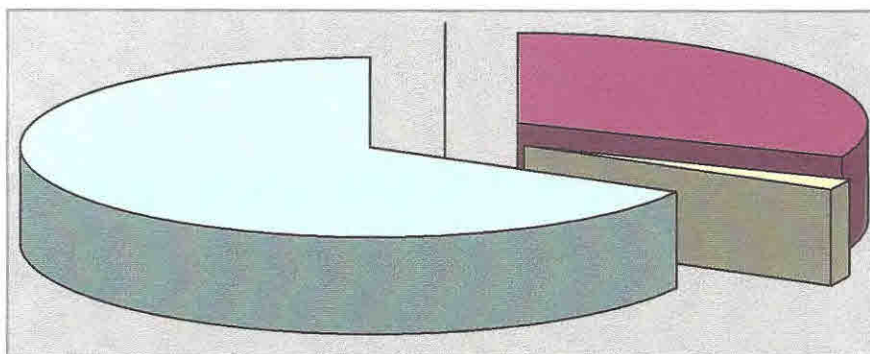
- General Government 46%
- Public Safety 25%
- Public Works 6%
- Public Health 5%
- Social & Economic Services 7%
- Culture & Recreation 10%
- Miscellaneous 1%

Road Fund

The information below compares revenues and expenses of the Road Fund. A large part of the revenue is derived from Federal P.L. 110-343 funding for Forest Reserve Payments under the Secure Rural Schools Act. The \$64,770 decrease in intergovernmental revenue is due to cuts in that program. In 2014, miscellaneous revenue included a large insurance payment.

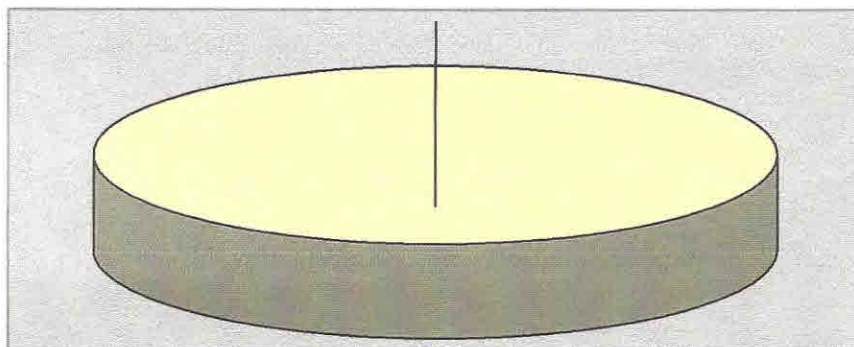
<u>Revenue by Source</u>	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Property Taxes	\$524,100	\$419,652	\$104,448
Intergovernmental	242,752	307,522	(39,678)
Charges for Service	1,450	6,690	(5,240)
Miscellaneous	14,114	34,600	(20,486)
Investment Earnings	1,363	587	776
Totals	\$783,779	\$769,051	\$ 14,728 Increase

Revenues by Source – Road Fund



- Charges for Services 0%
- Intergovernmental 31%
- Miscellaneous 2%
- Property Taxes 67%
- Investment Earnings 0%

Expenditure by Source – Road Fund



- ☐ General Government
- ☐ Public Safety
- ☒ Public Works 100%
- ☐ Public Health
- ☐ Social & Economic Services
- ☐ Culture & Recreation
- ☐ Miscellaneous

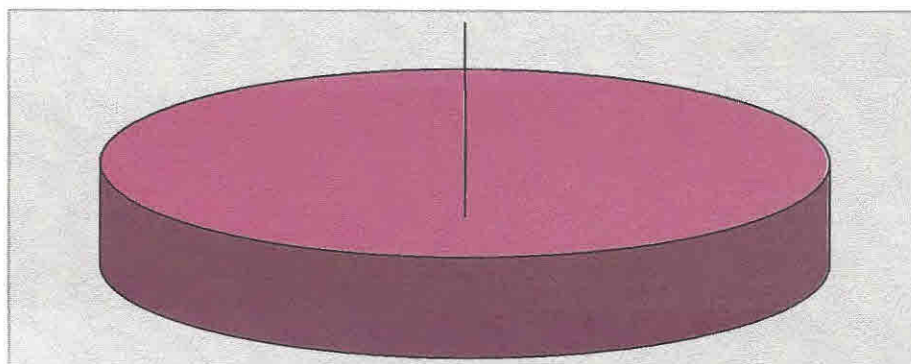
<u>Expenditures</u>	<u>2014</u>	<u>2013</u>	<u>Difference</u>
	\$1,749,091	\$1,447,745	\$301,346

Oil & Gas Production Tax Fund

The information below compares revenue and expenses of the Oil & Gas Production Fund for FY2014 and 2013.

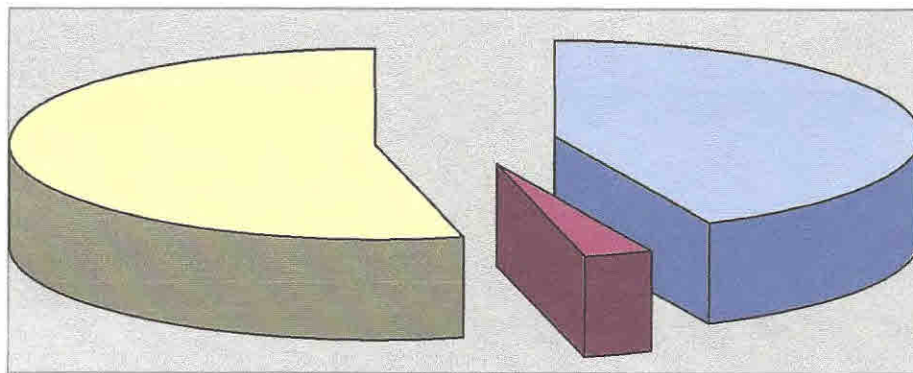
<u>Revenue by Source</u>	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Intergovernmental	\$1,264,935	\$1,478,675	\$(213,740)

Revenues by Source – Oil & Gas Production Fund



- ☐ Charges for Services
- ☒ Intergovernmental 100%
- ☐ Investment Earnings
- ☐ Property Taxes
- ☐ License & Permits
- ☐ Fines & Forfeitures
- ☐ Miscellaneous

Expenditure by Source – Oil & Gas Production Fund



General Government	43%
Public Works	3%
Nursing Home & Solid Waste	54%

<u>Expenditures</u>	<u>2014</u>	<u>2013</u>	<u>Difference</u>
	\$1,401,000	\$3,150,403	(\$1,749,403)

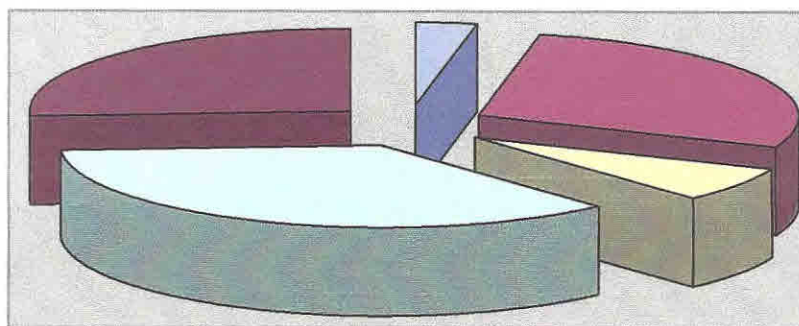
DEBT ADMINISTRATION

Debt is considered a liability of governmental activities. The County's debt at the end of FY2014 for governmental activities was \$542,617; business-type activities was \$44,000 for a total of \$586,617. The debt payable does not include the long-term portion of compensated absences of \$212,948 for the governmental activities and the business-type compensated absences of \$125,833. The landfill closure and post-closure costs are listed as a separate entry of \$593,535.

CAPITAL ASSETS

The capital assets of the County are those assets that are used in the performance of the County's functions. FY2013 net capital assets of the governmental activities totaled \$5,834,272 and in FY2014 increased to \$6,225,482. Depreciation on capital assets is recognized in the Government-Wide financial statements.

Capital Asset by Type



Land	3%
Buildings	28%
Improvements Other Than Bldgs.	7%
Machinery & Equipment	36%
Infrastructure	26%

Capital Assets purchased in 2014 are:

Recarpeting of Lobby & Halls	\$ 13,230
Eng. Services – Sheriff Office	2,730
Stabilize Courthouse & Sheriff Addition..	13,560
Keyless Entry – Courthouse	1,535
Stabilize Clinic & Keyless Entry - Clinic	19,370
Remodel Bathrooms – Community Ctr.	22,786
Bal. on Remodel & Heater - Pool	6,708
Coal Bin Building	15,308
40x75' Steel Bldg. – Rd	12,000
Weed Storage Bldg. Remodel	5,201
Crthse. Sidewalk Project	59,572
Transportation Bldg. Landscaping	3,173
1100 Gal. Poly Fire Truck	5,305
Generator – Transportation Bldg.	6,689
Wiring – Generator	1,574
2009 Chevy Pickup – Bldg. & Grds	12,559
Genie Scissor Manlift	6,000
Generator Hookup - Clinic	4,478
Front Fenders – Motor Grader	1,025
10,000 Gal Water Tower	21,500
McClosky Conveyor	59,657
McClosky Impact Crusher	449,875
McClosky Wheeled Transport UYV	51,589
Vermeer Disc Mower	6,250
2014 Dodge Pickup	30,110
Franklin Motor Pump – Airport	7,090
Bridges – Bal. Due	279,815
Total	\$ 1,118,689

ECONOMIC FACTORS AND BUDGETS

The annual budget assures the efficient, effective and economic uses of the County's resources, as well as establishing that projects and objectives are carried out according to prioritized planning. Through the budget, the County Commission sets the direction of the County and allocates its resources.

The following factors were considered in preparing the budget for the 2014 fiscal year.

- Taxable value of the County increased by approximately 24%.
- Capital improvement projects including county building maintenance must be continued.
- Even though the employees' county health insurance premium increased, the commission was able to include the increase in the allowable county levies and not levy a separate permissive medical levy.
- In 2007, the airport was relocated with construction of a new runway, tiedown areas and lighting. An automated fuel system provides both AvGas and JetA fuels through a credit card system. A perimeter wildlife fence was constructed in 2012, along with a pavement maintenance project. Although there were no projects this year, a 5-year Capital Improvement Plan is adopted for future projects. Airport improvements are made possible by utilizing both FAA funding and State Aeronautics loans and grants. Local funds were used to drill a water well to accommodate future development.

- The county nursing home continues to rely heavily upon tax dollars and oil and gas proceeds for operating expenses as revenues generated from resident care does not cover expenses. The commission has opted to utilize Oil and Gas revenue to make up the deficit. This, of course, allocates funds that could be used in other governmental operations. The addition of physical therapy department at the nursing home provides a extremely important service to residents at the nursing home, as well as to the public.
- Road Department continues an equipment upgrading program. The Commission recognizes the importance of having good, all weather, county roads. This year, with funding provided by an INTERCAP loan, a gravel crusher and related equipment was purchased at a cost of \$561,000.

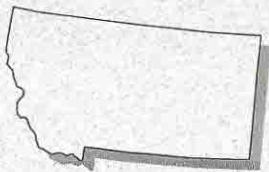
The County recognizes the importance of keeping an adequate cash reserve. Efforts have been made to increase the reserves to the maximum to insure adequate cash flow in the future. The County is committed to maintaining a long-term Capital Improvements Plan, with a primary function of protecting and replacing infrastructure and equipment.

Powder River County continues to maintain county services at a level necessary to serve its citizens, while keeping individual taxes at a minimum. By utilizing revenue from oil and gas production, the commissioners decrease levies in 2011, 2012 and 2013 while maintaining services. In 2014, levies were increased slightly in order to provide adequate fund reserves. Following is the county tax on property valued at \$100,000 for fiscal years beginning 2007 to the present:

FY2007	\$302.03
FY2008	\$382.75 (includes NH voted levy)
FY2009	\$329.62
FY2010	\$330.06
FY2011	\$301.92
FY2012	\$244.97
FY2013	\$144.97
FY2014	\$155.13

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors of Powder River County with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need any additional financial information, contact: *Powder River County Clerk and Recorder, PO Box 200, Broadus, MT 59317* or email crichards@prco.mt.gov.



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

INDEPENDENT AUDITORS REPORT

Board of Commissioners
Powder River County
Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powder River County, Montana, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise Powder River County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

Management has not obtained a valuation of other post employment benefits as required by Governmental Auditing Standards Board Statement No. 45. The amount by which this valuation would decrease the net position and increase expenses of the governmental activities, business-type activities, and the nursing home and solid waste major enterprise funds has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to in the preceding paragraph present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and the nursing home and solid waste major enterprise funds of Powder River County, Montana, as of June 30, 2014 and in the respective changes in financial position and, where applicable, the cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund, and the aggregate remaining fund information of Powder River County, Montana, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting Principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages i-xiii and pages 32-33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 4, 2015 on our consideration of Powder River County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Powder River County's internal control over financial reporting and compliance.

May 4, 2015



Ross R. Stalcup
Certified Public Accountant

Powder River County

Montana

STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$3,093,654	\$693,272	\$3,786,926
Petty Cash	1,000	1,000	2,000
Property Taxes Receivable	99,692	13,526	113,218
Accounts Receivable		187,651	187,651
Prepaid Expense		7,861	7,861
Inventories	153,123		153,123
Total Current Assets	3,347,469	903,310	4,250,779
Non-Current Assets			
Restricted- Post Closure Requirements		553,233	553,233
Capital Assets- Net of Depreciation	6,225,483	664,202	6,889,685
Total Non-Current Assets	6,225,483	1,217,435	7,442,918
Total Assets	9,572,952	2,120,745	11,693,697
Deferred Outflow of Resources	0	0	0
Total Assets and Deferred Outflow of Resources	9,572,952	2,120,745	11,693,697
LIABILITIES			
Current Liabilities			
Accounts Payable	87,945	65,395	153,340
Compensated Absences	70,982	41,944	112,926
Notes Payable			0
Total Current Liabilities	158,927	107,339	266,266
Non Current Liabilities			
Due in more than one year			0
Compensated Absences	141,966	83,889	225,855
Closure/Post Closure - Landfill		593,535	593,535
Notes Payable	542,617	44,000	586,617
Total Non Current Liabilities	684,583	721,424	1,406,007
Total Liabilities	843,510	828,763	1,672,273
Deferred Inflow of Resources	0	0	0
Total Liabilities and Deferred Inflow of Resources	843,510	828,763	1,672,273
Total Net Position	8,729,442	1,291,982	10,021,424
NET POSITION			
Net Investment in Capital Assets	5,682,865	620,202	6,303,067
Restricted	1,876,621		1,876,621
Unrestricted	1,169,956	671,780	1,841,736
Total Net Position	\$8,729,442	\$1,291,982	\$10,021,424

See Notes to Financial Statements

**Powder River County
Montana**
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions:	Expenses	Program Charges for Services	Revenue—Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	Net (Expense) Revenue
Governmental Activities							
General Government	(\$1,396,068)	\$110,537			(\$1,285,531)		(\$1,285,531)
Public Safety	(853,165)	23,145	162,376		(667,644)		(667,644)
Public Works	(2,185,418)	88,489	289,572		(1,807,357)		(1,807,357)
Public Health	(270,835)	28,237	19,599		(222,999)		(222,999)
Social and Economic Development	(174,040)	15,568	32,037		(126,435)		(126,435)
Culture and Recreation	(240,393)	7,692			(232,701)		(232,701)
Interest on Long-term Debt	(2,901)				(2,901)	(605)	(3,506)
Market Fees					0	(4,263)	(4,263)
Total Governmental	(5,122,820)	273,668	503,584	0	(4,345,568)	(4,868)	(4,350,436)
Business-type Activities							
Nursing Home	2,976,047	2,026,235				(949,812)	(949,812)
Solid Waste Landfill	158,455	142,299				(16,156)	(16,156)
Total Business-type	3,134,502	2,168,534	0	0		(965,968)	(965,968)
TOTAL	(\$1,988,318)	\$2,442,202	\$503,584	\$0	(\$4,345,568)	(\$970,836)	(\$5,316,404)
GENERAL REVENUES							
Property Taxes					1,309,793	111,966	1,421,759
Local Option Taxes					453,051		453,051
Licenses and Permits					2,235		2,235
Federal/State					58,806	331,469	390,275
Grants & Contributions					2,155,142		2,155,142
Investment Earnings					8,629	6,693	15,322
Miscellaneous					61,825		61,825
Loss on Sale of Capital Assets					(65,587)		(65,587)
Transfers					(751,664)	751,664	0
Contribution					13,854	(13,854)	0
Change in Estimate					10,951		10,951
Total General Revenues					3,257,035	1,187,938	4,444,973
CHANGE IN NET POSITION					(1,088,533)	217,102	(871,431)
NET POSITION							
Beginning of Year					9,814,624	1,085,880	10,900,504
Prior Period Adjustment					3,351	(11,000)	(7,649)
Beginning of Year- Restated					9,817,975	1,074,880	10,892,855
End of Year					\$8,729,442	\$1,291,982	\$10,021,424

See Notes to Financial Statements

**Powder River County
Montana**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

MAJOR FUNDS

NON MAJOR FUNDS

	General Fund	Road Fund	Other Governmental Funds	Total
ASSETS:				
Cash and Cash Equivalents	\$1,388,299	\$643,896	\$1,061,458	\$3,093,653
Petty Cash	\$1,000			1,000
Property Taxes Receivable	41,764	24,419	33,510	99,693
Inventories		17,871	135,252	153,123
Total Assets	1,431,063	686,186	1,230,220	3,347,469
Deferred Outflows of Resources	0	0	0	0
Total Assets and Deferred Outflows of Resources	1,431,063	686,186	1,230,220	3,347,469
LIABILITIES:				
Accounts Payable	47,565		40,380	87,945
Total Liabilities	47,565	0	40,380	87,945
Deferred Inflows of Resources	41,764	24,418	33,510	99,692
Total Liabilities and Deferred Inflows of Resources	89,329	24,418	73,890	187,637
FUND BALANCE: (Note 10)				
Non-Spendable		17,871	135,252	153,123
Restricted		643,896	1,021,673	1,665,569
Unassigned	1,341,735		(595)	1,341,140
Total Fund Balance	1,341,735	661,767	1,156,330	3,159,832
Total Liabilities and Fund Balance	\$1,431,064	\$686,185	\$1,230,220	\$3,347,469

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance from above	\$3,159,832
Net capital assets	6,225,482
Deferred inflow of resources - Property taxes	99,693
Less liabilities not reported above:	
Compensated absences	(212,948)
Notes Payable	(542,617)
Net Position	\$8,729,442

See Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2014	
MAJOR FUNDS	NON MAJOR FUNDS

See Notes to Financial Statements

**Powder River County
Montana**

**RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2014

Net change in fund balances -total governmental funds	(\$952,558)
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Governmental funds report capital outlays as expenditures, governmental activities report depreciation expense to allocate those expenditures over life of assets:

Capital assets purchased	1,118,690
--------------------------	-----------

Depreciation expense	(686,697)
----------------------	-----------

In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:

Gain (loss) on the disposal of capital assets	(65,586)
---	----------

Donated capital assets	24,805
------------------------	--------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Long-term receivables (deferred inflow of resources)	18,642
--	--------

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position:

Loan proceeds	(559,167)
---------------	-----------

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Position:

Long-term loan/contract principal payments	31,631
--	--------

Some expenses reported in Statement of Activities do not require use of current financial resources and are not reported as expenditures in governmental funds:

Accrued compensated absences	(18,292)
------------------------------	----------

Rounding	(1)
----------	-----

Change in Net Position in Governmental Activities	<u><u>(\$1,088,533)</u></u>
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See Notes to Financial Statements

**Powder River County
Montana
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014**

Enterprise Funds

	Nursing Home	Solid Waste	Total
ASSETS:			
Cash and Cash Equivalents	\$655,092	\$38,180	\$693,272
Petty Cash	1,000		1,000
Property Taxes Receivable	5,606	7,920	13,526
Accounts Receivable	\$187,651		187,651
Principal Prepayment			0
Inventories	7,861		7,861
Total Current Assets	857,210	46,100	903,310
NON-CURRENT ASSETS:			
Restricted Cash		553,233	553,233
Capital Assets:			
Land	20,264		20,264
Buildings	1,312,244		1,312,244
Improvements other than buildings	11,420	43,511	54,931
Machinery and Equipment	149,525	83,064	232,589
Infrastructure (Utility Systems)		691,303	691,303
Less Accumulated Depreciation	(1,243,120)	(404,008)	(1,647,128)
Net Capital Assets	250,333	413,869	664,202
Total Non-Current Assets	250,333	967,102	1,217,435
Total Assets	1,107,543	1,013,202	2,120,745
CURRENT LIABILITIES:			
Accounts Payable	64,173	1,222	65,395
Note Payable		22,000	22,000
Compensated Absences	39,944	2,000	41,944
Total Current Liabilities	104,117	25,222	129,339
NON-CURRENT LIABILITIES:			
Notes Payable		22,000	22,000
Closure/Post Closure Care Costs		593,535	593,535
Compensated Absences	79,710	4,179	83,889
Total Non-current Liabilities	79,710	619,714	699,424
Total Liabilities	183,827	644,936	828,763
NET POSITION	923,716	368,266	1,291,982
Net Investment in Capital Assets	250,333	369,869	620,202
Restricted			0
Unrestricted	673,383	(1,603)	671,780
Total Net Position	\$923,716	\$368,266	\$1,291,982

See Notes to Financial Statements

**Powder River County
Montana
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the Year Ended June 30, 2014**

Enterprise Funds			
	Nursing Home Fund	Solid Waste Fund	Total
Operating Revenues			
Charges for Services	2,019,761	9,412	2,029,173
Miscellaneous Revenues	6,474		6,474
Special Assessments		132,887	132,887
Total Operating Revenues	2,026,235	142,299	2,168,534
Operating Expense			
Personal Services	1,950,065	47,835	1,997,900
Supplies	297,539	35,159	332,698
Purchased Services	361,896	27,072	388,968
Fixed Charges	343,098		343,098
Closure & Post-Closure		11,648	11,648
Depreciation	23,449	36,741	60,190
Total Operating Expense	2,976,047	158,455	3,134,502
Total Operating Income	(949,812)	(16,156)	(965,968)
Non-Operating			
Tax/assessment Revenue	111,966		111,966
Intergovernmental Revenue	331,468		331,468
Interest Revenue		6,693	6,693
Debt Service Interest Expense		(605)	(605)
Market Fees		(4,262)	(4,262)
Contribution to Clinic	(13,854)		(13,854)
Total Non-Operating	429,580	1,826	431,406
TOTAL NET INCOME	(520,232)	(14,330)	(534,562)
Transfers in (from Oil & Gas)	711,664	40,000	751,664
CHANGE IN NET POSITION	191,432	25,670	217,102
NET POSITION			
Beginning of the Year	732,283	353,597	1,085,880
Prior period Adjustment	1	(11,001)	(11,000)
Beginning of the Year- Restated	732,284	342,596	1,074,880
End of the Year	\$923,716	\$368,266	\$1,291,982

See Notes to Financial Statements

**Powder River County
Montana
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the Year Ended June 30, 2014**

	Enterprise Funds		
	Nursing Home	Solid Waste	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	2,018,344	9,412	2,027,756
Cash paid to suppliers	(1,011,213)	(63,046)	(1,074,259)
Cash paid to employees	(1,928,812)	(44,171)	(1,972,983)
Cash received from special assessments		132,008	132,008
Net cash (used) provided by operating activities	(921,681)	34,203	(887,478)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers from (to) other funds	711,664	40,000	751,664
Principal Prepayment			0
Subsidies from taxes and other governments	442,263		442,263
Transfer from (to) Solid Waste Trust		(42,194)	(42,194)
Net cash provided (used) by noncapital financing	1,153,927	(2,194)	1,151,733
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchases/acquisition/construction of capital assets	(103,190)		(103,190)
Principal on debt		(22,000)	(22,000)
Interest paid on debt		(604)	(604)
Net cash used by capital and related financing activities	(103,190)	(22,604)	(125,794)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in fair market value		(4,263)	(4,263)
Interest earnings		6,693	6,693
Net cash provided by investing activities	0	2,430	2,430
Net (decrease) in cash	129,056	11,835	140,891
Balance July 1	527,037	26,345	553,382
Balance June 30	\$656,093	\$38,180	\$694,273
Reconciliation of operating income (loss) to cash provided by operations			
Operating income	(949,812)	(16,156)	(965,968)
Adjustments to reconcile			
Depreciation expense	23,449	36,741	60,190
(Increase) decrease in Closure/post closure		11,648	11,648
(Increase) decrease in accounts receivable	(7,892)	(879)	(8,771)
(Increase) decrease in taxes receivable			0
(Increase) decrease in inventories	4,887		4,887
Increase (decrease) in petty cash			0
Increase (decrease) in accounts payable	(13,566)	(815)	(14,381)
Increase (decrease) in compensated absences pay	21,253	3,664	24,917
Increase (decrease) in taxes receivable			0
Net cash provided by operations	(921,681)	\$34,203	(887,478)

See Notes to Financial Statements

**Powder River County
Montana
STATEMENT OF FIDUCIARY NET POSITION
AND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
As of and for the Year Ended June 30, 2014**

FIDUCIARY NET POSITION

	Investment Trust Funds	Private Purpose Trust	Agency Funds
ASSETS			
Cash and Cash Equivalents	\$2,150,762	\$56,798	\$83,090
Property Taxes Receivable			5,657
Total Assets	<u>2,150,762</u>	<u>56,798</u>	<u>88,747</u>
LIABILITIES			
Due to Retiree Healthcare		0	
Due to Other Governments		0	88,747
Total Liabilities	<u>0</u>	<u>0</u>	<u>88,747</u>
NET POSITION			
Held in Trust	<u>\$2,150,762</u>	<u>\$56,798</u>	

CHANGES IN FIDUCIARY NET POSITION

Additions		
Contributions to Investment Trust	13,421,635	30,761
Investment Earnings	6,066	
Miscellaneous Revenue		
Total Additions	<u>13,427,701</u>	<u>30,761</u>
Deductions		
Distribution of Investments	13,762,764	31,157
Due to Other Funds		
Total Deductions	<u>13,762,764</u>	<u>31,157</u>
CHANGE IN NET POSITION HELD IN TRUST	(335,063)	(396)
NET POSITION		
BEGINNING	<u>2,485,825</u>	<u>57,194</u>
ENDING	<u>\$2,150,762</u>	<u>\$56,798</u>

See Notes to Financial Statements

**Powder River County
Montana**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Reporting Entity

Powder River County is governed by an elected, three member Board of County Commissioners and is considered an independent governmental organization. The accompanying financial statements include the activities of the County controlled by the Board of County Commissioners. Based on the criteria for determining the reporting entity (separate legal entity and fiscal or financial dependency on other governments), the County is considered to be an independent reporting entity and has no component units.

B. Basis of Presentation and Basis of Accounting

Government-wide Statements - The statement of net position and the statement of activities show information about the overall financial position and activities of the County with the exception of funds held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments and or other funds.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the business-type activities which are reported separately. The activities of the County are generally financed through property taxes, user fees, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

The Statement of Activities presents comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function. The County does not charge indirect expenses to programs or functions. Program revenues include fees for services (primarily charges for services) and grants and contributions that are restricted to a particular program. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

The County generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net position are available.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fund Financial Statements - These statements provide information about the County's funds, including a separate statement for the County's fiduciary funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column in the governmental fund statements. All of the remaining funds are aggregated and reported in a single column as non-major funds.

Governmental Funds

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected during the year or soon after year-end are recognized as revenue.

Most current property taxes receivable are delinquent at June 30 and amounts collected soon after year-end are not significant. Deferred inflow of resources are recorded in governmental funds for these receivables. Property tax levies for the subsequent fiscal year are recorded as property tax receivables because they become a lien on real property as of January 1. Because these taxes are levied for the subsequent fiscal year, they are offset by deferred inflows.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when paid. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under the terms of the County's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the County applies cost reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Government Accounting Standards Board Statement No. 34 (GASB 34) requires that the general fund be reported as a major fund and that all other governmental funds whose assets & deferred inflow of resources, liabilities & deferred outflow of resources, revenues, or expenditures exceed 10% or more of the total for all governmental funds and 5% of all funds.

Accordingly, the County reports the following major governmental funds:

General fund

This is the County's primary operating fund which accounts for all financial resources of the County except those required to be accounted for in other funds. This fund is also referred to as the All Purpose Fund. It also includes, as required by GASB 54, the activity of the Oil and Gas Production Fund.

Road fund

This fund is used to account for the tax collections, federal forest reserve funds, and related expenses for construction, maintenance or improvement of the County roads outside of incorporated cities and towns.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds

Enterprise Funds

These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or where the determination of net income is necessary or useful for sound financial administration. The County has two major Enterprise Funds determined as explained earlier:

Solid Waste Fund

This fund is used to account for landfill services provided to residential and commercial users of the County, including accrual of closure and post-closure costs.

Nursing Home

This fund is used to account for revenues and expenses related to the operation of the County Nursing Home.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include (1) charges to customers for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds are charges to customers for sales and services and county wide assessments for solid waste. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed. The general policy is to spend resources in the following order: Restricted, Committed, Assigned, Unassigned assuming that there are different classifications within a particular fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting and consist of the following:

Investment Trust Funds

Consists of funds deposited in the County's investment pool belong to participating local governments. The portion of the County's investment pool that belongs to other governments is reported separately from the County's invested funds and is held in STIP and money market accounts.

Agency Funds

These funds consist of cash held for other governments that do not participate in the County's investment pool and property taxes receivable belonging to other governments. Cash amounts consist primarily of property tax collections and other funds collected by the County on behalf of other governments and are remitted to the other governments soon after the end of the month. The County manages all of the property taxes levied in the County.

Private Purpose Trust Fund

These funds are generally for the benefit of the County Nursing Home.

C. Property Taxes

Property tax levies are approved on or before the second Monday in August or within 45 calendar days of receiving certified taxable values from the Department of Revenue. Real property (and certain attached personal property) taxes are billed in October and are due in equal amounts on November 30 and the following May 31. After those dates they become delinquent (and a lien upon the property). After three years the County may exercise the lien and take title to the property. Personal property taxes (other than those billed with real estate) are generally billed in May or June and are normally due thirty days after billing.

State law limits the number of mills the County can levy to the amount of property tax dollars levied in the prior fiscal year plus amounts related to the taxable value for the annexation of real property, new construction and improvements, debt service, and certain other exceptions. Additionally, the mill levy limits can be exceeded for one year in the event that an emergency levy is required, or if additional mills are approved by the vote of the County electorate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments

The County's cash and cash equivalents are composed of cash on hand, demand deposits, savings deposits, time deposits, and amounts held money market accounts or the State Short-term Investment Pool (STIP) .

Except for specific investments held separately in an agency capacity, cash resources, to the extent available, of the individual funds are combined to form an investment pool, which is managed by the County Treasurer. Investments of pooled cash, which are authorized by state law, consist primarily of demand deposits, non-negotiable certificates of deposit, and government agency securities and notes.

The County reports most investments at historical cost.

Legally separate entities that are not part of the County reporting entity are permitted to participate in the investment pool, and those entities' portion of the investment pool is reported in an external investment trust fund.

The County invests, as directed, in interest bearing accounts for certain entities which is reported as a individual investment account within the investment trust fund.

Investment income includes realized gains and losses. Investment income on pooled investments is allocated to participating entities on the basis of end of the month balances. The County's share for pooled investment income not related to specific investments is allocated to the general fund.

The County issues warrants in payment of its obligations. When warrants are presented to the County Treasurer, the County issues a check to pay the warrants.

Cash and investments are held in the name of the County Treasurer.

E. Inventories

Inventories of supplies and other expendable items are valued at estimated cost, which approximates market. Inventories are expensed when used and recorded inventories are offset by a fund balance reserve.

F. Compensated Absences

County employees earn vacation and sick leave as required by State law. Up to two years of accumulated vacation leave and 25% of accumulated sick leave is payable to the employee on termination. The amounts reported as compensated absences payable is based on the termination benefits.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Capital assets are carried at cost or estimated cost if actual cost is not available. Donated capital assets are valued at their estimated fair market value on the date received. Major additions and betterments with a cost in excess of \$ 5,000 are recorded as additions to capital assets. Repair and maintenance costs are not capitalized.

Depreciation on assets is provided over their estimated useful lives on the straight-line method. The useful lives of these assets have been estimated as follows:

Buildings	50 years
Building Improvements	10 - 50 years
Public Domain Infrastructure ..	10 - 50 years
Vehicles	6 years
Equipment other than vehicles	12 years
Office Equipment	5 years
Computer Equipment	5 years

Generally accepted accounting principles require the recording of public domain (infrastructure) assets, consisting of roads, bridges, and similar assets. GASB Statement No. 34 requires the prospective reporting of infrastructure; however, for a government the size of the County (a Phase 3 government), Statement No. 34 encourages, but does not require, the retroactive reporting of infrastructure assets, which the County continues to chose not to do. New construction is capitalized.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates. Examples include depreciation and landfill closure costs.

I. Deferred Inflow/Outflow of Resources

A *deferred outflow* of resources is defined as a consumption of net position by the government that is applicable to a future reporting period and a *deferred inflow* of resources as an acquisition of net position by the government that is applicable to a future reporting period. A deferred outflow of resources has a positive effect on net position, similar to assets, and a deferred inflow of resources has a negative effect on net position, similar to liabilities.

2. CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2014 was as follows:

Cash on Hand	\$12,739
Petty Cash	3,250
Deposits:	
Demand Deposits	4,505,429
Investments:	
Closure/Post-closure	553,233
Montana Short Term Investment Pool (STIP)	2,210,665
Total	<u>7,285,316</u>
Less Clearing Accounts	<u>(652,508)</u>
TOTAL - Financial Statements	<u>\$6,632,808</u>

Individual Investment Accounts:

Area Educational Entities (School & Cooperatives) direct the County Treasurer to invest in STIP, or in money market checking.

Landfill Trust:

Pursuant to EPA regulations (Note 7) the County is required to place cash in trust for post-closure mitigation.

Montana statutes (MCA 7-6-207(1)) allow the County to obtain securities for the uninsured portion of the deposits equal to 50% of such deposits if the institution in which the deposits are made has a net worth to total assets ratio of 6% or more or securities equal to 100% of the uninsured deposits if the institution in which the deposits are made has a net worth to total assets ratio of less than 6%. State statutes do not specify in whose custody or name the collateral is to be held.

Any uninsured deposits were 100% collateralized by a letter of credit, or other acceptable method.

The County does not have a policy regarding custodial credit risk for deposits.

Investments consist of:

Short-term Investment Pool	Federal Home Loan Bank
Landfill Trust	US Treasury Notes

GASB 40 Disclosures:

The County does not have policies on the various risk types, but relies on State law. The various risk types include interest rate risk and credit risk. Concentration of credit risk does not apply in the County's case.

Notes to Financial Statements (continued)

3. CAPITAL ASSETS

Changes in Capital Assets were as follows:

GOVERNMENTAL FUNDS					
	Balance July 1, 2013	Debit	Credit	Adjustments	Balance June 30, 2014
Capital Assets not being depreciated:					
Land	\$225,429				\$225,429
Total Capital Assets not being depreciated	225,429	0	0	0	225,429
Capital Assets being depreciated					
Buildings	4,465,436	112,427			4,577,863
Improvements	915,290	62,745			978,035
Machinery and Equipment	4,680,851	663,702	209,877	24,544	5,159,220
Infrastructure	3,641,791	279,814			3,921,605
Total Capital Assets being depreciated	13,703,368	1,118,688	209,877	24,544	14,636,723
Less Accumulated Depreciation for:					
Buildings	(2,713,427)	(90,615)			(2,804,042)
Improvements	(553,126)	(15,940)			(569,066)
Machinery and Equipment	(2,765,098)	(318,209)	(144,291)	261	(2,938,755)
Infrastructure	(2,062,874)	(261,933)			(2,324,807)
Total	(8,094,525)	(686,697)	(144,291)	261	(8,636,670)
Net Capital Assets being depreciated	5,608,843	431,991	65,586	24,805	6,000,053
Governmental activities capital assets net	5,834,272	431,991	65,586	24,805	6,225,482
Loss on Disposal			65,586		
Contribution from Nursing Home to Clinic				13,854	
Change in Estimate				10,951	
				24,805	

Notes to Financial Statements (continued)

3. CAPITAL ASSETS -(Continued)

BUSINESS-TYPE FUNDS

	Balance July 1, 2013	Debit	Credit	Balance June 30, 2014
Capital Assets not being depreciated:				
Land	\$20,264			\$20,264
Total Capital Assets not being depreciated	20,264	0	0	20,264
Capital Assets being depreciated				
Buildings	1,231,124	81,121		1,312,245
Improvements	54,931			54,931
Machinery and Equipment	234,270	22,069	23,750	232,589
Infrastructure	691,302			691,302
Total Capital Assets being depreciated	2,211,627	103,190	23,750	2,291,067
Less Accumulated Depreciation for:				
Buildings	(1,174,701)	(14,621)		(1,189,322)
Improvements	(38,977)	(2,176)		(41,153)
Machinery and Equipment	(126,510)	(8,828)	(9,896)	(125,442)
Infrastructure	(256,647)	(34,565)		(291,212)
Total	(1,596,835)	(60,190)	(9,896)	(1,647,129)
Net Capital Assets being depreciated	614,792	43,000	13,854	643,938
Business-type activities capital assets net	635,056	43,000	13,854	664,202

Depreciation expense was charged to functions as follows:

	2014
Governmental Activities:	
General Government	\$61,562
Public Safety	35,032
Public Works	545,808
Public Health	12,798
Social and Economic Development	
Culture and Recreation	31,497
Total depreciation expense - governmental activities	\$686,697
Business Activities:	
Solid Waste Services	\$36,741
Nursing Home	23,449
Total depreciation expense - business activities	\$60,190

Notes to Financial Statements (continued)

4. LONG-TERM DEBT

Changes in general long-term debt were as follows:

	Balance June 30, 2013	*Restated Balance June 30, 2013	Debt Issued	Payments and Other Charges	Balance June 30, 2014	Amount due in 2015
Airport Loan	\$8,730	\$8,730		\$970	\$7,760	\$970
Airport Loan	6,703	3,351		3,351	0	0
Airport	3,000	3,000		500	2,500	500
Crusher 1	0	0	509,532	24,378	485,154	48,942
Crusher 2	0	0	49,635	2,432	47,203	4,768
Total	18,433	15,081	559,167	31,631	542,617	55,180
Business-type						
Landfill	66,000	66,000		22,000	44,000	22,000
	\$84,433	\$81,081	\$559,167	53,631	\$586,617	\$77,180
Compensated Absences						
Governmental	194,656	194,656	18,292		212,948	78,982
Business-type	100,916	100,916	24,917		125,833	41,944
	\$295,572	\$295,572	\$43,209	0	\$338,781	\$120,926

*Restated fund balance due to prior period adjustment to correct \$3,352 balance overstatement at fiscal year end 2013, caused by an amended amortization schedule.

Originated	Purpose	Original Amount	Term	Interest Rate
8/23/2013	Road	\$49,635	10 yrs	1.000%
8/23/2013	Road	\$509,532	10 yrs	1.000%
11/18/2005	Landfill	\$222,000	10 yrs	3.800%
8/28/2009	Airport	\$5,000	10 yrs	1.630%
2/28/2012	Airport	\$9,700	10 yrs	1.630%

(These are InterCap Loans complete amortization is not available.)

5. PENSION AND RETIREMENT PLANS

The County participates in two state-wide mandatory cost-sharing multiple-employer, defined benefit retirement plans which cover all employees. The plans are established by State law and are administered by the State of Montana. The plans provide retirement, death, and disability benefits to plan members and beneficiaries. Sheriff employees are covered by the Montana Sheriffs' Retirement System (MSRS) and substantially all other County employees are covered by the Montana Public Employees' Retirement System (MPERS).

The plans issue publicly available financial reports that includes financial statements and supplementary information for the plans. Those reports may be obtained from the following:

Montana Public Employees Retirement Administration
P.O. Box 200131
1712 Ninth Avenue
Helena, Montana 59620-0131
Telephone 406/444-3154

Contribution rates for both plans are required and determined by State law. The 2014 rates, expressed as a percentage of covered payroll, were as follows:

	Employer	Employee	State	Total
MSRS	10.115%	9.245%	0.000%	19.360%
MPERS	7.070%	6.900%	0.100%	14.070%

The County participates in the Montana Public Employee's Retirement System and the Sheriff's Retirement System. The contributions to the plans for the fiscal year are as follows:

	Employer Share of Retirement Contribution Expenses	Employee Share of Retirement Contribution	Total
Sheriff's Retirement System (MSRS)	16,291	14,890	31,181
Public Employee's Retirement System (MPERS)	220,624	215,474	436,098
Total	\$236,915	\$230,364	\$467,279

The amounts contributed to MSRS and MPERS during the years ended June 30, 2012, 2013, and 2014 were equal to the required contribution for each year. The amounts contributed by the County and its employees were as follows:

	2012	2013	2014
MSRS	28,308	27,240	31,181
MPERS	308,328	340,259	467,279

The State of Montana contributes .1% of employee payroll as an on-behalf payment. The County does not record this as required by generally accepted accounting principles.

6. RISK MANAGEMENT

The County faces a number of risks of loss including:

- loss or damage to property
- general liability
- workers' compensation
- employee medical insurance

There were no significant changes in how the County covered its risks in 2014. The County manages these risks through a combination of commercial insurance, participation in a risk pool, and self-insurance. Commercial insurance coverage is used to manage risks of loss for all activities except workers' compensation claims.

The County covers its workers' compensation risk through participation in the Montana Association of Counties Workers' Compensation Joint Powers Authority (the Authority). The Authority is supervised by a Board of Trustees, which is comprised of seven persons, who are elected by the participant counties at the annual meeting. The Authority is liable for the payment of benefits to employees of member counties under the Workers' Compensation and Occupational Disease Act. The reserve for the workers' compensation program was covered under a \$7.645 million dollar bond issue. The Authority charges the County an annual workers' compensation premium to cover anticipated workers' claims.

Audited summary financial information is available for the Authority from Montana Association of County Officials (MACO).

7. LANDFILL CLOSURE AND POST-CLOSURE

The County operates a Class II landfill composed of individual cells. The original cell, approximately 1.5 acres, is unlined and was "grandfathered in" in 1993. The second cell, approximately 3.25 acres, is lined and began accepting waste in the Fall of 2005, concurrent with the closure of the original cell.

Total closure and post-closure costs are estimated to be \$ 1,510,600. The liability of \$ 593,535 represents the cumulative use to date of 51.54% of the total useable capacity.

The estimated closure and post-closure costs are based on current costs, and may be higher when the landfill stops accepting waste.

The County is required by state and federal law to contribute to make annual contributions to a trust to finance closure and post-closure care.

The County is in compliance with those requirements. Investments of \$ 553,233 are held for these purposes. They are reported as Restricted Assets in the Solid Waste Enterprise fund. The annual expense recognized is \$ 11,648.

8. TRANSFERS

	From	To
Oil & Gas Production Tax	\$1,400,000	
Governmental		
General Fund		\$713,526
District Court		30,815
Mineral Royalty	390,225	
Weed Control Fund		21,425
Bridge Fund		20,385
Road Fund		252,410
Governmental Total		<u>1,038,561</u>
Business-type		
Solid Waste		40,000
Nursing Home		711,664
Business-type Total		<u>751,664</u>
Total Transfers	<u>\$1,790,225</u>	<u>\$1,790,225</u>

Transferred pursuant to Resolution numbers 2014-06, 2014-08.

9. OTHER POST EMPLOYMENT BENEFITS

The County did not determine the estimated liability for retiree health care cost resulting from the implicit subsidy caused by charging retirees the same premium as active members of the plan. The amount of the liability is unknown.

This affects the government wide financial statements and the statements of the enterprise funds.

10. FUND BALANCE/NET POSITION DISCLOSURES

GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* was issued to enhance the usefulness of Fund Balance information and clarify existing governmental fund type definitions. To that end GASB 54 established the following fund balance classifications:

Non-spendable

Includes fund balances that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. An example is inventory.

Restricted

Includes fund balances that are constrained for specific purposes which are externally imposed by providers such as creditors, or amounts constrained due to law, constitutional provisions or enabling legislation.

Committed

Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. An example is a resolution by the Board.

Assigned

Includes fund balance amounts that are intended to be used for a specific purpose that are neither considered restricted or committed. A designee can be authorized to assign fund balance. The Clerk and Recorder has been designated to assign fund balance.

Unassigned

Unassigned fund balance includes positive fund balance within the General Fund which has not been classified within the above mentioned classifications. Negative fund balances in other governmental will be reported as unassigned.

Additionally the statement addresses fund classification to the extent that the fund type is dependent on proceeds of specific revenue sources which are restricted or committed to expenditure in accordance with a specific purpose.

Powder River County has a general policy that fund balance is restricted for the statutory purpose of a fund or by the grant agreements.

Additionally the County has a general policy that resources will be spent in the following order: Restricted, Committed, Assigned, Unassigned assuming that there are different classifications within a particular fund.

Also, with regard to fund type classification, any statutory special revenue fund that has revenue flow that is not restricted to a purpose will be combined with the General fund for reporting purposes. This does not apply to budgetary basis reporting.

10. FUND BALANCE/NET POSITION DISCLOSURES (continued)

COUNTY OF POWDER RIVER
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDING JUNE 30, 2014

Fund Balance Classifications - GASB 54 requires presentation of governmental fund balances by specific purpose. In the basic financial statements the fund balance classifications are presented in the aggregate. The table below displays the fund balances by major purpose.

	MAJOR FUNDS (Budget Basis)				
	General Fund	Road	Oil & Gas	Other Government Funds	Total
FUND BALANCES					
Non Spendable:					
Inventory		17,871		135,252	153,123
	0	17,871	0	135,252	153,123
Restricted for:					
General Government				55,783	55,783
Public Safety				465,877	465,877
Public Works		643,896		443,214	1,087,110
Public Health				54,777	54,777
Culture Recreation				2,022	2,022
	0	643,896	0	1,021,673	1,665,569
Committed to:	0	0	0	0	0
Assigned for:					
Public Works					0
	0	0	0	0	0
Unassigned:	1,281,154	0	60,580	(594)	1,341,140
Total Fund Balance:	\$1,281,154	\$661,767	\$60,580	\$1,156,331	\$3,159,832

Fund Type Classification

	<u>Budget Basis</u>	<u>Modified Accrual Basis</u>
	<u>General (All Purpose)</u>	<u>Report</u>
Revenue		
Taxes	\$985,704	\$985,704
Licenses and Permits	2,235	2,235
Intergovernmental	512,076	512,076
Charges for Services	139,018	139,018
Fines	48,318	48,318
Interest	5,456	5,456
Other	37,672	37,672
State Shared Oil and Gas		1,264,935
Total Revenue	<u>1,730,479</u>	<u>2,995,414</u>
Total Expenditures	<u>2,656,773</u>	<u>2,656,773</u>
Transfers	713,526	(1,401,000)
Change in Fund Balance	(212,768)	(348,833)
Fund Balance 7/1	1,493,922	1,690,567
Fund Balance 6/30	<u>\$1,281,154</u>	<u>\$1,341,734</u>

Notes to Financial Statements (continued)

10. FUND BALANCE/NET POSITION DISCLOSURES (continued)

Net Position Classifications are:

Restricted	
Non expendable	
Expendable	1,876,621
Net Investment in Capital Assets	5,682,865
Unrestricted	1,169,956
	<u>\$8,729,442</u>

GASB 34 requires disclosure of restrictions of Net Position. The following discloses that and a reconciliation to fund balance by classification.

	Total Governmental Funds	Capital Assets	Notes Payable	Compensated Absences	Deferred Inflow	Adjustments	Net Position Total
FUND BALANCES							
Non Spendable	153,123					(153,123)	0
Invested in Capital Assets		6,225,482	(542,617)				5,682,865
Restricted	1,665,569				57,929	153,123	1,876,621
Assigned							0
Unassigned	1,341,140					(1,341,140)	0
Unrestricted				(212,948)	41,764	1,341,140	1,169,956
Total Fund Balance	<u>\$3,159,832</u>	<u>\$6,225,482</u>	<u>(\$542,617)</u>	<u>(\$212,948)</u>	<u>\$99,693</u>	<u>\$0</u>	<u>\$8,729,442</u>

Net Position is restricted for the following Functional Categories:

General Government	\$55,783
Public Works	1,268,017
Public Safety	471,169
Public Health	79,630
Culture & Recreation	2,022
	<u>\$1,876,621</u>

11. CONCENTRATION OF RISK

Powder River County is reliant on Oil & Gas Production Revenues. For the year ended June 30, 2014 that revenue was 26.3% of total governmental revenues.

Proceeds from this revenue source are used to support a variety of County functions; notably the road fund and the County nursing home.

Any reduction in this revenue stream could have negative consequences for County operations.

This concern has become more relevant because:

- a) The County is increasingly dependent on the revenue type.
- b) Oil prices have decreased significantly.

12. COMMITMENT

The County engaged in a CTEP project for the courthouse sidewalks. The base bid accepted by the County was \$173, 910 with a provision for accepting alternate as change orders.

The total cost of the project, including engineer fees and other costs was \$226,245. \$60,212 was spent by June 30, 2014.

The project was completed by October 4, 2014, the date of the Certificate of Substantial Completion.

13. SUBSEQUENT EVENT

Subsequent to year end, the County assumed management and operational control of the local medical clinic. Generally speaking, the duties of management have been contracted, however, the County is financially responsible.

14. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$3,351 was made in the long term debt schedule to correct a previous year's misreading of the debt schedule. A prior year adjustment of \$11,000 was made in the landfill fund to record an additional payment and its reimbursement that was incorrectly recorded in 2013.

POWDER RIVER COUNTY
Montana
SCHEDULE OF REVENUES, EXPENDITURES, AND OTHER SOURCES (USES)
BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
for the Year ended June 30, 2014

	General Fund			Road Fund		
	Original Budget	Amended Budget	Actual	Original Budget	Amended Budget	Actual
REVENUES						
Taxes	\$673,376	\$673,376	\$664,601	\$403,106	\$403,106	\$397,330
Local Option Taxes	293,225	293,225	321,103	126,770	126,770	126,770
Licenses and Permits	1,300	1,300	2,235	0	0	0
Intergovernmental	537,755	575,555	512,076	39,111	39,111	242,752
Charges for Services	109,415	113,415	139,017	2,000	2,000	1,450
Fines and Forfeitures	50,000	50,000	48,318	0	0	0
Interest Earnings	6,360	6,360	5,456	500	500	1,363
Other	27,300	27,300	37,674	100	100	14,114
Total Revenues	1,698,731	1,740,531	1,730,480	571,587	571,587	783,779
EXPENDITURES						
Total Expenditures	3,162,723	3,204,523	2,656,773	1,780,765	1,780,765	1,778,540
Excess of Revenues over Expenditures	(1,463,992)	(1,463,992)	(926,293)	(1,209,178)	(1,209,178)	(994,761)
Other Financing Sources						
Notes/loans/intercap loans	0	0	0	559,132	559,132	559,167
Sale of Assets	713,526	713,526	713,526	0	0	0
Transfers In				252,410	252,410	252,410
Transfers Out						
Total Other Financing Sources	713,526	713,526	713,526	811,542	811,542	811,577
Net change in Fund Balance	(750,466)	(750,466)	(212,767)	(397,636)	(397,636)	(183,184)
Beginning Fund Balance July 1			1,493,922			844,951
Ending Fund Balance June 30			<u>\$1,281,155</u>			<u>\$661,767</u>

See notes to the Budget and Actual Schedules

NOTE: State law requires only that total actual expenditures not exceed total budgeted expenditures.

POWDER RIVER COUNTY
Montana
SCHEDULE OF REVENUES, EXPENDITURES, AND OTHER SOURCES (USES)
BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
for the year ended June 30, 2014

	Oil & Gas Fund		
	Original Budget	Amended Budget	Actual
REVENUES			
Taxes			
Licenses and Permits			
Intergovernmental			
Charges for Services	1,234,000	1,234,000	1,264,935
Fines and Forfeitures			
Interest Earnings			
Other			
Total Revenues	1,234,000	1,234,000	1,264,935
EXPENDITURES			
Total Expenditures	0	0	0
Excess of Revenues over Expenditures			
Proceeds from Borrowing			
Sale of Assets			
Transfers In			
Transfers Out			
Net change in Fund Balance	(1,400,000)	(1,400,000)	(1,401,000)
Beginning Fund Balance July 1	(166,000)	(166,000)	(136,065)
Ending Fund Balance June 30			196,645
			\$60,580

See notes to the Budget and Actual Schedules

NOTE: State law requires only that total actual expenditures not exceed total budgeted expenditures.

POWDER RIVER COUNTY
Montana

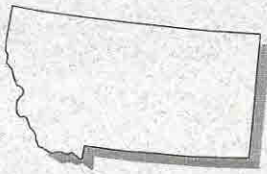
NOTES TO THE BUDGET AND ACTUAL SCHEDULES

For the Year ended June 30, 2014

State law (MCA Title 7, Chapter 6, Part 40) requires the County to prepare budgets for all funds. Budgets are prepared on the modified accrual basis. Budgeted fund expenditures are limited by State law to the total budgeted amount which may be amended as defined by State law. Amendments to the budget can be made for unanticipated state and federal revenue with the approval of the County Commissioners. Budget amendments were made through Resolution Nos. 2014-11 and 2014-04.

The Board approves the original budget on or before the second Monday in August or within 45 calendar days of receiving certified taxable values from the Department of Revenue.

Budget Basis presentation does not comply with the requirements of GASB 54.



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C.

**INDEPENDENT AUDITORS REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Powder River County
Montana

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powder River County, Montana as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Powder River County's basic financial statements, and have issued our report thereon dated May 4, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Powder River County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Powder River County's internal control. Accordingly, we do not express an opinion on the effectiveness of Powder River County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Summary of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Summary of Findings and Questioned Costs to be material weaknesses. (Findings No. 2014-01, 2014-02, 2014-03, 2014-04)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Powder River County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* in the accompanying Summary of Findings and Questioned Costs.

Powder River County's Response to Findings

Powder River County's response to the findings identified in our audit is described in the accompanying Summary of Findings and Questioned Costs. Powder River County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

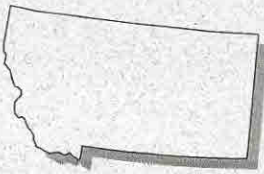
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 4, 2015



Ross R. Stalcup
Certified Public Accountant



ROSS R. STALCUP

CERTIFIED PUBLIC ACCOUNTANT, P.C. INDEPENDENT AUDITORS REPORT SUMMARY OF FINDINGS AND QUESTIONED COSTS

SECTION I FINDINGS IN RELATION TO THE AUDIT OF THE FINANCIAL STATEMENTS MATERIAL WEAKNESSES

2014-01 Internal Control over Financial Reporting

- Criteria: Auditing Standards require that entities have internal control procedures over the preparation of their financial statements in accordance with US GAAP.
- Condition: The County does not have the ability to completely prepare financial statements in accordance with requirements.
- Context: The County financial statements are prepared with assistance by the external auditor.
- Effect: A material weakness in internal control over reporting.
- Cause: The scale of the County's operations make this requirement impractical to comply with.
- Recommendation: We recommend the County's management take this matter under consideration.

2014-02 Other Post Employment Benefits Liability

- Criteria: Governmental Accounting Standards Board Statement No. 45 requires disclosure of Other Post Employment Benefits liability.
- Condition: The County did not obtain a valuation of the liability associated with other post employment benefits.
- Effect: Lack of required disclosure.
- Cause: County did not obtain an OPEB valuation.
- Recommendation: That the management of the County evaluate the situation.

2014-03 Internal Control over Accounts Payable

- Criteria: The operating policy of Powder River County is that items purchased are not paid for until received. Department head approval and indication of receipt is evidenced by his/her approval of an invoice for payment.
- Condition: During the audit a transaction from a previous year was brought to our attention by an elected official. The transaction resulted in the prepayment of items which were delivered some time later. The invoice had been approved for payment by the previous elected official in that office. Additionally, that elected official approved an inventory that included non-existent items.
- Context: An invoice was paid before the ordered items were delivered resulting in a prepaid asset.
- Effect: Overall, none. In the short term, immaterial misstatement. Override of internal control.
- Cause: County internal controls over purchasing, albeit informal and uncodified, were overridden. The controls allow the same person who placed an order to approve it for payment.
- Recommendation: Communicate, in writing, the County expectations of the department heads regarding approval of invoices for payment.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued
Page 2 of 2

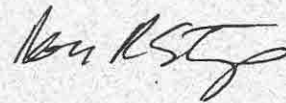
2014-04 Internal Control over Billing for Services

- Criteria: The Nursing Home provides services and bills for them. Consequently; there has to be internal control that ensures timely and accurate billing for services.
- Condition: The Nursing Home started providing physical therapy services but did not have a system in place for billing them.
- Context: The Nursing Home provided services from June 2013 to January 2014 without billing for the services.
- Effect: Cash flow was affected, financial reporting did not include the revenue.
- Cause: Management did not properly prepare for the billing of the services.
- When the County Commission became aware of the situation an outside CPA firm had to be engaged to rectify the situation.
- Recommendation: The County Commission continue to closely monitor the activities at the Nursing Home.

SECTION II – STATUS OF PRIOR YEAR FINDINGS

13-01 Internal Control of Financial Reporting - see 2014-01

13-02 Other Post Employment Benefits - see 2014-02



May 4, 2015

Ross R. Stalcup
Certified Public Accountant

BOARD OF COUNTY COMMISSIONERS

POWDER RIVER COUNTY

PO Box 200
Broadus, Montana 59317

Phone: 406-436-2657
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Darold L. Zimmer, Broadus
David Richards, Broadus
Rod Schaffer, Broadus

May 5, 2015

Local Government Services Bureau
Department of Administration
301 S. Park, Rm 340
PO Box 200547
Helena, MT 59620

Re: 2014 Audit Response

To Whom It May Concern:

This is in response to our FY 2014 audit findings prepared by Ross R. Stalcup, CPA, issued May 5, 2015.

2014-01 Internal Control of Financial Reporting

The audit report states that management does not comply with the current Auditing Standards (SAS 115) which require that entities have internal control procedures over the preparation of their financial statements in accordance with US GAAP. Powder River County considers its present status to be acceptable. The County does not consider employing personnel with this skill set to be economically practical.

2014-02 Other Post Employment Benefits

The audit report states that management has not obtained a Post Employment Benefits valuation as required by US generally accepted accounting principles. The County understands that the calculation of this liability is required in order for its financial statements to be prepared in acceptance with generally accepted accounting principles.

The county's position is that given the intangible nature of an implicit rate subsidy, county resources are better utilized for other things.

2014-03 Internal control over Accounts Payable

The audit revealed a transaction which resulted in prepayment of items which were delivered some time later.

Principal cause was an elected official who has since left the county, that did not use the system in the manner intended. When the system was used properly the problem was revealed. The Clerk and Recorder's office has communicated expectations and policy to affected offices

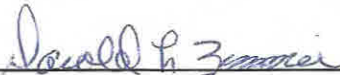
2014-04 Internal Control for Nursing Home Billing Services

The Nursing Home provided physical therapy services from June 2013 to January, 2014 without billing system in place.

The county's position is that a new Nursing Home Administrator and is in place and a system has now been set up to resolve billing services for physical therapy.

Sincerely,


BOARD OF COUNTY COMMISSIONERS
POWDER RIVER COUNTY



Darold L. Zimmer, Chairman



David Richards



Rod Schaffer